

FINANCIAL OPERATIONS

Revenue and Expenditure Forecasting

The Delaware Economic and Financial Advisory Council ("DEFAC"), created in 1977, is comprised currently of 32 members appointed by the Governor from the executive and legislative branches of State government and the private sector.

DEFAC is mandated by executive order to submit to the Governor and the General Assembly revenue forecasts for the budgetary General Fund and Transportation Trust Fund six times each fiscal year in September, December, March, April, May and June for the current fiscal year and the succeeding two fiscal years. A forecast for the current fiscal year and the succeeding four fiscal years is generated once each year, not later than October 1. Budgetary General Fund and Transportation Trust Fund expenditure forecasts are generated for the current fiscal year in December, March, April, May and June.

The Transportation Trust Fund is a major part of the State's operating and capital budgets, and, as such, its revenue and expenditures are forecasted along with the budgetary General Fund. Its financial activities are presented in the appropriate funds in the accompanying financial statements rather than shown separately. Certain budgetary appropriated and non-appropriated Special Funds (i.e., certain user fees and federal funds) are not forecasted through this process.

DEFAC relies on projections of national economic trends, an external econometric model, projections developed by the State's Departments of Finance and Transportation, its members' knowledge of the State's particular economic strengths and weaknesses, and its members' understanding of the structure of the State's revenue system.

The revenue and expenditure forecasts are used in the State budget process to ensure State compliance with the State's constitutional limits on spending and statutory debt limitations. In addition, DEFAC advises the Governor and General Assembly on economic conditions in the State and advises the Governor and the Secretary of Finance on tax policy. The full DEFAC meetings are open to the public

and provide a general forum for members of the public and private sectors to exchange views on matters of economic and fiscal concern for the State.

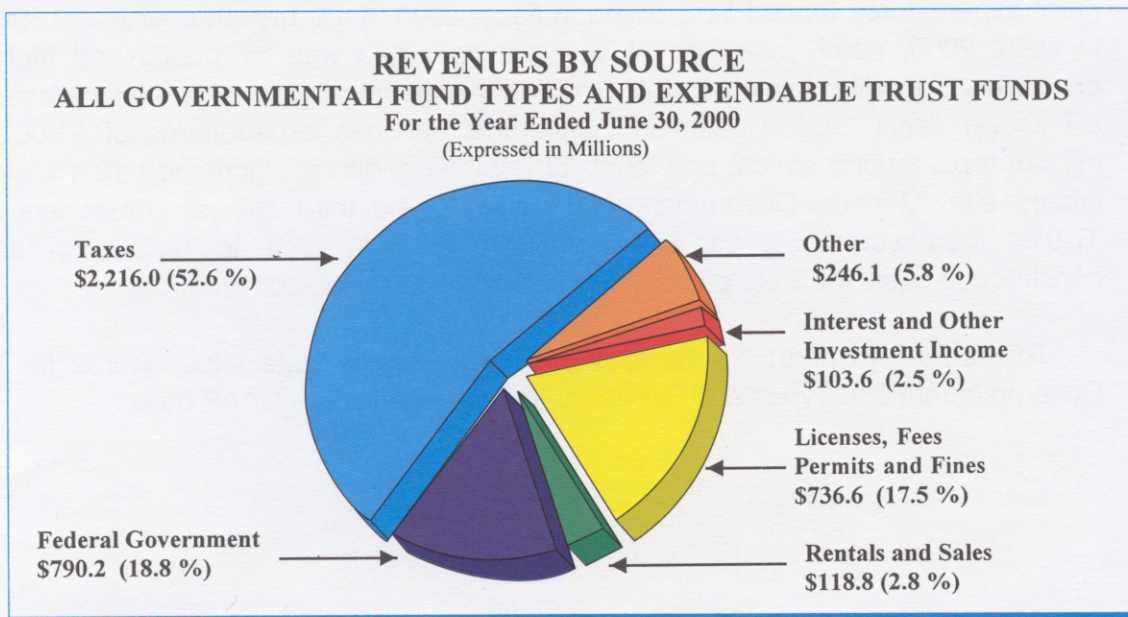
Revenue

Total State revenues for all governmental fund types and expendable trust funds were \$4.2 billion in fiscal 2000, an increase of 6.4% over 1999. Of this amount, budgetary General Fund revenues totaled \$2.3 billion, an increase of 4.0% over fiscal 1999.

The principal source of State revenue is taxes, representing 52.6% of State revenue collections. The increase of 3.2% over fiscal 1999 reflects strong economic activity across all major sectors. Personal income taxes totaled \$850.4 million in fiscal 2000, a decrease of 3.6% over fiscal 1999 due to reduction in tax rates, an increase in the standard deduction and pension income exclusion. The State levies a personal income tax on taxable income ranging from a zero bracket on the first \$2,000 of net taxable income to 5.95% (effective January 1, 2000) on taxable income in excess of \$60,000. The primary business taxes include corporation franchise taxes, which yielded \$471.5 million (up 10.5%) in fiscal 2000; business and occupational gross receipts taxes, which totaled \$135.2 million (up 3.3%) in fiscal 2000; bank franchise taxes, which totaled \$106.8 million (down 23.2%) in fiscal 2000; and corporate income taxes, which yielded \$133.4 million (up 9.2%) in fiscal 2000.

The Delaware Lottery was another principal source of revenue in fiscal 2000. The contribution to the budgetary General Fund from traditional and video lottery income increased by 10.4% in fiscal 2000, to \$185.4 million.

The following table and chart depict State revenues by source on a GAAP basis for all Governmental Fund Types and Expendable Trust Funds.



COMPARISON OF REVENUES BY SOURCE
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS

For the Year Ended June 30

(Expressed in Millions)

	1997 Amount	1998 Amount	% of Change from 1997	1999 Amount	% of Change from 1998	2000 Amount	% of Change from 1999
Taxes	\$ 1,839.1	\$ 2,073.3	12.7%	\$2,147.0	3.6%	\$2,216.0	3.2%
Licenses, Fines,							
Permits and Fees	583.9	589.4	0.9	644.6	9.4	736.6	14.3
Rentals and Sales	112.0	115.4	3.0	107.6	(6.8)	118.8	10.4
Federal Government	599.3	640.1	6.8	621.1	(3.0)	790.2	27.2
Interest and Other							
Investment Income	74.0	89.0	20.3	86.4	(2.9)	103.6	19.9
Other	200.0	250.8	25.4	349.8	39.5	246.1	(29.6)
Total Revenues	\$ 3,408.3	\$ 3,758.0	10.3%	\$3,956.5	5.3%	\$4211.3	6.4%

Expenditures

The State assumes substantial financial responsibility for a number of programs often funded by local units of government in other states, including public and higher education, social services programs, highways and the correctional system. Expenditures in fiscal 2000 for all Governmental Fund Types and Expendable Trust Funds totaled \$4.5 billion, an increase of 6.2% over fiscal 1999. Budgetary General Fund expenditures totaled \$2.2 billion in fiscal 2000, 4.4% growth over fiscal 1999. In fiscal 2000, nearly one-third of all State spending was for public and higher education. Spending totaled \$1,279.6 million for education programs, an increase of 8.7% over fiscal 1999. Health and Children's Services expenditures of \$1,061.4 million, representing almost one-fourth of total expenditures, increased 12.4% over fiscal 1999. General Government expenditures, the third largest component at 17.9%, increased 7.5% to \$797.1 million primarily due to renovation and construction costs for State offices, new schools and prison construction.

The table and chart on the following page depict State expenditures for all Governmental Fund Types and Expendable Trust Funds on a GAAP basis.

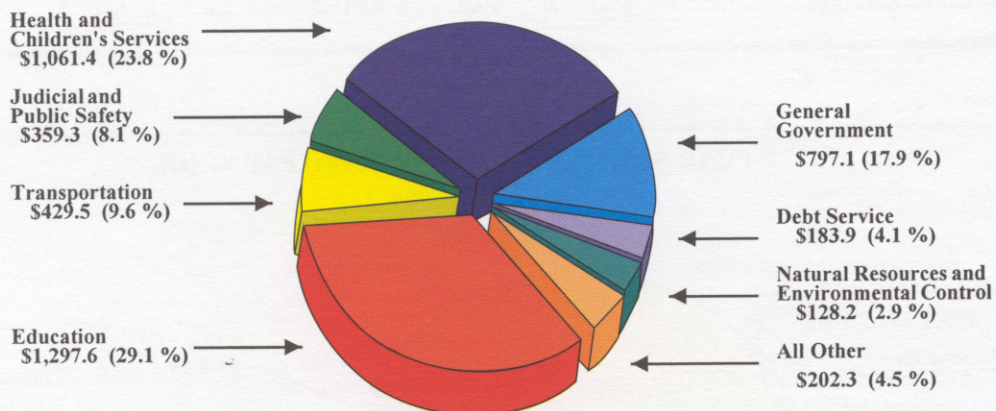
COMPARISON OF EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS

For the Year Ended June 30

(Expressed in Millions)

	1997 Amount	1998 Amount	% of Change from 1997	1999 Amount	% of Change from 1998	2000 Amount	% of Change from 1999
General Government	\$ 538.3	\$ 576.9	7.2%	\$ 741.6	28.5%	\$ 797.1	7.5 %
Health & Children's Services	841.7	886.5	5.3	944.4	6.5	1,061.4	12.4
Judicial & Public Safety	271.8	294.1	8.2	328.3	11.6	359.3	9.4
Transportation	317.4	336.8	6.1	380.7	13.0	429.5	12.8
Education	1,086.1	1,158.0	6.6	1,193.9	3.1	1,297.6	8.7
Debt Service	158.7	170.6	7.5	177.0	3.8	183.9	3.9
Natural Resources & Environmental Control	106.3	104.2	(2.0)	123.5	18.5	128.2	3.8
All Other	198.1	175.6	(11.4)	195.5	11.3	202.3	3.5
Total Expenditures	\$ 3,518.4	\$ 3,702.7	5.2%	\$ 4,084.9	10.3%	\$ 4,459.3	9.2 %

EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
For the Year Ended June 30, 2000
(Expressed in Millions)



Fund Balances and Retained Earnings

The fund balances and retained earnings of the primary government, excluding account groups and discretely presented component units, increased 13.6% in

fiscal 2000 to \$7.4 billion. Of that amount, the GAAP General Fund balance increased 3.7% to \$912.4 million in fiscal 2000, an increase fueled by strong growth across all major revenue categories. Capital Projects fund balance increased due to renovation and construction costs for State offices, new schools and prison construction.

The following table presents a comparison of fund balances and retained earnings of the primary government by GAAP fund for fiscal 1997 through 2000. The chart displays the percentages of Fund Balances and Retained Earnings by GAAP fund type for the fiscal year ended June 30, 2000.

COMPARISON OF TOTAL FUND BALANCES AND RETAINED EARNINGS At June 30, 2000 (Expressed in Millions)							
	1997 Amount	1998 Amount	% of Change from 1997	1999 Amount	% of Change from 1998	2000 Amount	% of Change from 1999
General	\$ 672.0	\$ 893.8	33.0	\$ 879.8	(1.6)	\$ 912.4	3.7 %
Other Governmental :							
Special Revenue	103.4	114.7	10.9	127.8	11.4	135.7	6.2
Capital Projects	88.3	170.3	92.9	149.5	(12.2)	200.5	34.1
Debt Service	83.6	93.4	11.7	96.6	3.4	102.4	6.0
Enterprise	1.0	1.0	0.0	1.0	0.0	1.0	0.0
Trusts :							
Expendable	310.8	331.7	6.7	362.8	9.4	389.3	7.3
Nonexpendable	3.0	3.0	0.0	2.9	(3.3)	2.4	(17.2)
Pension	3,793.3	4,452.1	17.4	4,898.1	10.0	5,663.8	15.6
Total Fund Balance/ Retained Earnings	<u>\$ 5,055.4</u>	<u>\$ 6,060.0</u>	19.9	<u>\$ 6,518.5</u>	7.6	<u>\$ 7,407.5</u>	13.6 %

